

Proposed 2003-04 Annual Budget



TO THE HONORABLE MAYOR AND CITY COUNCIL:

This letter transmits a balanced budget for the upcoming fiscal year. On Feb. 18, the Mayor and City Council approved \$72 million in budget reductions including the elimination of 170 City jobs. Those reductions were implemented on March 31. This formal budget, which is required by the City Charter, reflects those already approved and implemented budget reductions.

It is important to note that this budget assumes the continuation of all current state-shared revenues. These revenues have been shared with Arizona cities and towns as a result of three initiatives approved by Arizona voters beginning in the 1940s. The Legislature continues to grapple with the State's \$1 billion budget deficit. If cuts in state-shared revenues are part of the Legislature's budget solution, the impact to community services will be drastic.

The budget presented here includes all City funds and represents months of hard work and difficult decisions by the Mayor and City Council, our boards and commissions, our employees, City management and the community. I want to thank the many community members who took the time to attend one or more of our thirteen budget hearings and share their ideas for balancing the upcoming budget. I also want to thank the many City boards and commissions who provided time on their already busy meeting agendas to review and discuss budget-balancing proposals.

GENERAL FUND BUDGET SHORTFALL

Our \$72 million General Fund budget shortfall is due to four factors. First, since 1972 the State has delayed shared income taxes for two years. Next year, we will share in the income taxes received by the State during the fiscal year 2001-02 severe economic downturn. This results in a \$23 million loss in state-shared income taxes for next year assuming no change in revenue sharing formulas. Next, after nine months, while some stability has returned to our monthly sales tax revenues, they continue to lag behind revenues of a year ago. We expect no real improvement in growth rates until the 2004 calendar year. This lack of economic growth means lost General Fund revenues.

On the expenditure side, we will incur \$32.3 million in unavoidable cost increases next year. These cost increases include transitioning 56 police officers from expiring federal grants to the General Fund, increased jail costs, the September citywide election, employee compensation and new capital facilities that will open next year as well as the full year's costs of facilities opened throughout this year. Finally, our budget-balancing actions included an amount for employee severance.

EARLY ACTION PROTECTS COMMUNITY SERVICES

We began discussing our budget situation with the Mayor and City Council on Oct. 1, 2002. We asked departments to begin preparing proposed budget cuts equal to 20 percent of their General Fund budget. Since this is the second year we have had to make cuts in our budget – we reduced the General Fund budget by \$23 million last fiscal year – there was minimal capacity left for departments to avoid service cuts.

In November, the Mayor and City Council approved looking for ways to reprioritize the 2001 Bond Program in order to minimize new facility operating costs next year. Staff's proposed plan was reviewed and recommended for approval by the Bond Committee on Jan. 9. This plan reduced next year's bond fund related operating costs by \$3.6 million.

Finally, as mentioned earlier, on Feb. 18, 2003, the Mayor and City Council approved budget reductions of \$72 million. These reductions were effective on March 31 wherever possible. In this way, we were able to achieve 15 months in savings rather than just 12 months. We were able to cut programs and services less by cutting them early.



OVERVIEW OF 2003-04 BUDGET

Police Department

This budget does not reduce the Police Department. Instead, this budget adds 39 police officer positions to provide federally mandated security at Sky Harbor Airport. Aviation funds will be used to pay the salaries and training costs for these new officers. This budget also adds 25 additional police officers using federal grants and seven school resource officers that will be largely paid for by schools. Our officer-to-population ratio will reach its highest level.

We have limited capacity at the Police Training Academy and high standards for selecting new police officers. So, filling these new positions will take time, and some unavoidable salary savings will accrue during the hiring and training process. We have accounted for these savings and used them to avoid deeper cuts elsewhere. The Police Department's ability to deliver public safety services has been enhanced in this budget.

All Other General Fund Departments

Reductions have been made in all other General Fund departments and at all levels of the organization. As mentioned earlier, we have cut 170 City jobs. Executive and middle management jobs have been reduced by the greatest proportion. The vast majority of services enjoyed by the community will remain intact. But, given the severity of our budget deficit, some services have to be reduced.

Parks maintenance has been reduced which will mean less watering and a delay in landscape maintenance and in cleaning the parks each day. The swimming pool season has been shortened by two weeks to coincide with the mid-August start of the school year. Funds available for neighborhood street repairs and

neighborhood Fight Back areas have been reduced. Library branches will open later and close earlier. Fewer library materials will be purchased. Transit customer service representatives will no longer be available on Sundays and the implementation of some new transit routes has been delayed. The summer youth jobs program is reduced. Maintenance at all City facilities has been severely curtailed. Only emergency and safety-related repairs will be done. The appearance of our community facilities may deteriorate.

We regret any reductions in community services. Restoring these services over the next few years will be a high priority as the economy improves.

Other General Fund Budget Adjustments

This budget includes no new taxes or fees or any increases in existing taxes or fees. We have included a reduction in next year's contingency fund from 3 percent of operating expenses to 2.5 percent of operating expenses. This provides \$4.7 million in resources. It also shifts \$7 million from secondary property taxes (used for paying debt service) to primary property taxes (a General Fund revenue source). The shift was approved as part of the 2001 Bond Program. The property tax rate will remain unchanged at \$1.82. Finally, we have eliminated the \$3.6 million capital operating cost set aside. This set aside was part of the 2001 Bond Committee's plan to help ease the impact of peak operating costs as new facilities are constructed and opened. These leave us with a tight budget that has little flexibility. But, the \$11.6 million in resources generated by these adjustments avoids even further service reductions.

Further Loss of Administrative Capacity

During the recession of the early 1990s, the General Fund was balanced with expenditure reductions that focused on administrative cuts. These administrative reductions have never been restored. Several internal service departments were already operating with fewer staff than they had prior to the 1990s cuts. In this budget, they have been reduced further. In the meantime, our organization has grown larger and more complex. We have tried to maintain our administrative strength through the use of technology. In most cases, though, we have not kept up and cycle times have deteriorated to unacceptable levels.

Our ability to study ways to deliver services in the most efficient and effective manner, to serve our employees, and to take advantage of new technologies is further reduced in this budget.

Non-General Fund Budgets

This budget provides recommendations for all City departments and all City funds. The Development Services, Civic Plaza and Golf Funds also have been impacted by the current economic downturn. Reductions have been made in these funds. These reductions will have no service impact in the short-term, but will keep expenditure levels in line with current revenues. We were able to provide some budget improvements in the Water, Wastewater, Aviation and Transit 2000 funds.

LOOKING AHEAD

Over the past two years, Phoenix has faced the most serious budget challenges in its history. Last year, the Mayor and City Council approved \$23 million in mid-year budget reductions. This year, the Mayor and City Council have approved another \$72 million in cuts. In two years, we have reduced the General Fund budget by \$95 million.

But recently, in connection with a planned bond sale, Standard and Poor's (S&P) and Moody's Investor's Services reviewed and assigned bond ratings to our senior lien excise tax bonds. Moody's sustained their rating of Aa2. S&P upgraded our senior lien excise tax bonds from AA+ to AAA. Their report noted the broad strength of the City's economic base and general creditworthiness. Their report also noted that our sales taxes have shown acceptable growth over the past four years. While our taxes decreased marginally (.3 percent) last year, this is still better than many western cities. S&P analysts were pleased with the measures

taken to manage our General Fund budget. This is an objective indicator that we have managed our finances well and are in an excellent position to weather the current economic downturn.

Also recently, we presented the Preliminary 2003-08 Capital Improvement Program (CIP) for the Mayor and City Council's review and discussion. During that discussion, we reported that our assessed values for next year had recently been determined by the Maricopa County Assessor. They have increased by 11.2 percent over prior year values. This is the seventh consecutive year of significant growth in Phoenix property values and is another indicator that the local economy is fundamentally sound.

While we have had to move some projects that would result in General Fund operating costs from the front of the program to the back of the program, the CIP still contains hundreds of projects that will ultimately result in police and fire stations, parks, libraries, community centers, water lines, landfills and airport improvements over the next several years. These facilities will improve service delivery for Phoenix and the region. The five-year CIP totals \$5.2 billion and provides an important source of jobs as the regional economy begins to recover.

CONCLUSION

We will continue to carefully monitor our revenues and report quickly to the Mayor and City Council if any problems occur. We also continue to carefully monitor the State's budget deliberations and to vigorously defend state-shared revenues. To date, no formal proposal to reduce state-shared revenues has been introduced. If the State were to reduce revenues shared with cities and towns, we will return with additional budget cuts. Given the level of cuts we have already implemented, severe service reductions will be brought forward for consideration.

I want to thank the Mayor and City Council for their leadership and guidance in balancing the City budget. I also want to thank City departments for carefully preparing budget reductions for consideration. Finally, I want to thank all City employees for their continued dedication to delivering high quality services to the community. Their efforts are especially appreciated during these cutback times.



Frank Fairbanks
City Manager
May 8, 2003